

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 /076 W

----- 123741

R 101704Z JAN 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 7222

INFO AMEMBASSY QUITO

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E.O. 11652: N/A

TAGS: ENRG, EINV, VE

SUBJECT: STATUS OF OCCIDENTAL AND MOBIL OIL SERVICE CONTRACTS

1. ALTHOUGH THE THREE-YEAR SERVICE CONTRACTS BETWEEN THE VENEZUELAN PETROLEUM CORPORATION (CVP) AND SHELL, MOBIL OIL, AND OCCIDENTAL PETROLEUM WERE TECHNICALLY CONCLUDED IN JULY AND AUGUST, 1974, NO DECISION HAS YET BEEN MADE BY CVP AND THE VENEZUELAN GOVERNMENT WHETHER OR NOT TO PERMIT THE TWO U.S. COMPANIES TO BEGIN COMMERCIAL DEVELOPMENT OF THE AREA. SHELL DID NOT SEEK TO COMMERCIALIZE ITS AREA, SINCE THAT COMPANY DID NOT ENCOUNTER ANY PROMISE OF OIL DURING THE THREE-YEAR PERIOD OF EXPLORATION. SHELL CONFINED ITS DRILLING OPERATIONS TO NORMAL DEPTHS OF PROVEN OIL RESERVES IN OTHER SECTIONS OF LAKE MARACAIBO, WHILE BOTH MOBIL AND OCCIDENTAL DRILLED DEEP WELLS INTO THE CRETACEOUS ZONE. MOBIL'S WELLS ARE STATED TO BE THE DEEPEST EVER DRILLED IN THE SOUTH AMERICAN CONTINENTAL ZONE.

2. IN AN EFFORT TO GET A FAVORABLE DECISION FROM THE GOV FOR CONVERTING ITS SERVICE CONTRACT INTO A COMMERCIAL OPERATION, DR. ARMAND HAMMER VISITED CARACAS THIS WEEK FOR THE SECOND TIME IN SIX MONTHS. ANOTHER REASON FOR HIS VISIT WAS TO OPEN AN

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EXHIBITION OF HIS PRIVATE COLLECTION OF FRENCH IMPRESSIONISTS'

PAINTINGS IN THE MUSEO DE BELLAS ARTES. THE EXHIBIT OF 140 PAINTINGS, HERE AT THE REQUEST OF PRESIDENT PEREZ, IS OF TRULY OUTSTANDING QUALITY, AND THE INVITATIONAL OPENING MAINTAINED DR. HAMMER'S FLAIR FOR ATTRACTING PUBLIC ATTENTION WITH WELL-CONCEIVED TASTE. SEVERAL HIGH GOV OFFICIALS ATTENDED THE OPENING, AS WELL AS A CROSS SECTION OF PROMINENT VENEZUELANS. IN ADDITION TO THE EXHIBIT, DR. HAMMER DONATED BS. 100,000 TO THE MUSEUM.

3. DR. HAMMER GAVE A PRESS CONFERENCE IN WHICH HE CONTINUED HIS POLICY OF COMPLETE OPENNESS REGARDING HIS INTENTIONS IN VENEZUELA. HE STATED THAT AN AGREEMENT HAD BEEN REACHED WHEREBY OCCIDENTAL PETROLEUM WILL DRILL ANOTHER WELL TO SATISFY THE GOV THAT OIL PREVIOUSLY DISCOVERED IN ITS SERVICE CONTRACT AREA IS SUFFICIENT FOR VIABLE COMMERCIAL OPERATION. THE COMPANY HAS INVESTED \$60 MILLION TO DATE IN THE EXPLORATORY PROGRAM, AND WILL INVEST MORE, INCLUDING \$1 MILLION FOR INVESTIGATION OF THE ORINOCO TAR BELT, IF THIS LATTER IS APPROVED.

4. SEPARATELY, THE OCCIDENTAL PETROLEUM LOCAL MANAGER STATED THAT AN AGREEMENT QUOTE IN PRINCIPAL UNQUOTE HAD BEEN REACHED TO DRILL ANOTHER WELL.

5. ALSO ON JANUARY 8, EMBASSY OFFICIALS ACCCOMPANIED SENATOR ROMAN HRUSKA ON A FLYING INSPECTION OF MARACAIBO AS GUESTS OF MOBIL OIL. DURING THE TRIP, MOBIL OFFICIALS SAID THAT CONTRARY TO A PUBLISHED ANNOUNCEMENT ON JANUARY 7 BY THE MINES MINISTRY THAT MOBIL WAS CONTINUING TO TEST WELLS IN ITS SERVICE CONTRACT; IN FACT, THE COMPANY SUSPENDED ALL WORK WHEN THE CONTRACT EXPIRED LAST AUGUST PENDING A DECISION BY THE GOV. A SAMPLE OF OIL FROM MOBIL'S RECORD DEEP WELL WAS GIVEN TO THE SENATOR. THE SAMPLE TESTED AT 45 API GRAVITY AND HAS AN EXTREMELY LOW SULPHUR CONTENT OF UNDER ONE PERCENT.

6. COMMENT: IN ADDITION TO TECHNICAL LEVEL PROBLEMS CONCERNING THE COMMERCIAL VIABILITY OF THE SERVICE CONTRACTS, THE MINISTRY MAY BE STALLING FOR POLITICAL REASONS IN GRANTING THE COMPANIES PERMISSION TO COMMERCIALIZE. THE DRAFT TEXT OF THE PETROLEUM REVERSION COMMISSION LAW FOR NATIONALIZATION CALLS FOR SIMILAR NATIONALIZATION OF THE SERVICE CONTRACTS. PRESIDENT PEREZ HAS LIMITED OFFICIAL USE

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ALSO BEEN SO INCLINED. TECHNICAL LEVEL OFFICIALS IN THE MINES MINISTRY HAVE ARGUED FOR SEPARATE TREATMENT OF THE SERVICE CONTRACTS ON THE GROUNDS THAT, IN FACT, THEY ARE ALREADY NATIONALIZED, AND THAT THE SERVICE CONTRACT EXPERIMENT WAS THOROUGHLY DEBATED BY ALL INTERESTED PARTIES PRIOR TO BEING APPROVED ORIGINALLY. COMPANIES THEN INVESTED THEIR CAPITAL WITH THE UNDERSTANDING THAT THIS WAS THE NEW SYSTEM THAT WOULD REPLACE OIL CONCESSIONS. AMONG OTHERS, THE DIRECTOR OF HYDROCARBONS

SEVERAL MONTHS AGO TOLD THE PETROLEUM ATTACHE THAT HE FELT
PRESIDENT PEREZ COULD BE PERSUADED TO THIS POINT OF VIEW--
THAT TO NATIONALIZE THE ALREADY NATIONALIZED SERVICE CONTRACTS
WOULD BE A BREACH OF FAITH. SINCE NO DECISION HAS COME FORTH
TO DATE, IT REMAINS TO BE SEEN IF ART CAN BE MORE SUASIVE THAN
LOGIC.

MILLS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, AGREEMENTS, CONTRACTS, EXPLORATORY DRILLING
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CARACA00353
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750011-0334
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750163/aaaacdds.tel
Line Count: 122
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 08 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 SEP 2003 by ElyME>; APPROVED <20 OCT 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: STATUS OF OCCIDENTAL AND MOBIL OIL SERVICE CONTRACTS
TAGS: ENRG, EINV, VE, MOBIL, SHELL, OCCIDENTAL PETROLEUM, CVP, (HAMMER, ARMAND)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006